MULTI-FAMILY CONSORTIA

Community Investment Corporation of North Carolina

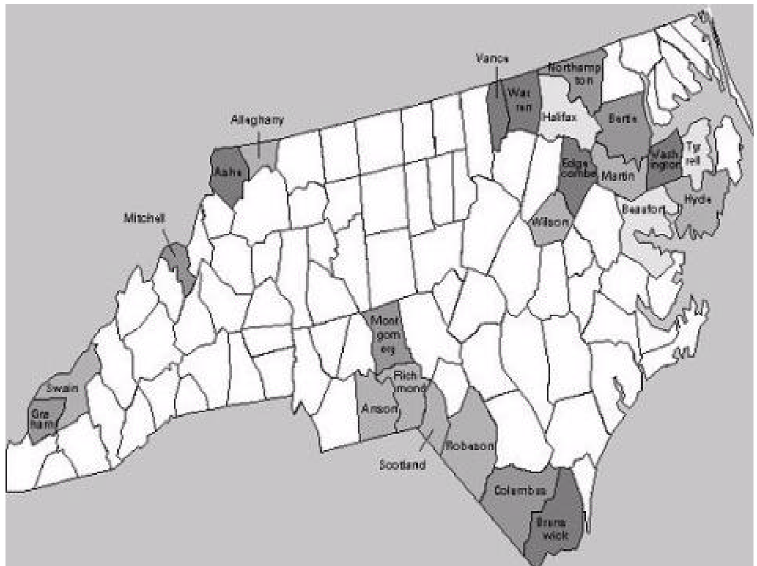
PARTICIPANT PROFILES

The Community Investment Corporation of North Carolina ("CICNC") is a for-profit affordable housing loan consortia formed by the North Carolina Bankers Association ("Bankers Association") as a wholly-owned subsidiary in 1990. It was created to help address housing shortages and the sub-standard conditions of some of the existing housing stock throughout the state. Its primary purpose is to provide long-term financing for the rehabilitation and construction of low- and moderate-income and special needs multi-family housing throughout North Carolina; moreover, CICNC also has an important role as the facilitator of many of its projects by connecting its statewide membership with profit and non-profit developers, community-based project sponsors and governmental agencies that might otherwise never meet.

The initial start-up capitalization for the CICNC was $150,000 and was provided by the Bankers Association. Membership in the CICNC is open to all North Carolina financial institutions. Originally membership consisted primarily of the thrift industry. Today there is broad representation by all types of financial institutions. CICNC currently has 103 member institutions, both banks and thrifts, that include a thrift with assets less than $10 million, as well as some of the largest banks in the state. Consortium membership fees range from $500 to $5,000 and are based on the asset size of the institution. The current capitalization of the CICNC is $280,000.

CICNC operates with an annual budget of approximately $250,000. The consortium employs a two-person staff and shares a support staff and office space with the Bankers Association. CICNC's staff provides critical technical assistance to project sponsors. The CICNC Board of Directors, Executive Committee and loan committees are composed of Chief Executive Officers from the member financial institutions. All projects are owned by limited partnerships or limited liability corporations.

COMMUNITY BACKGROUND



North Carolina consists of three primary geographic regions: Eastern North Carolina, which includes the Atlantic coast and coastal plain areas; Piedmont, which includes the mid-central areas; and Western North Carolina, which includes the Appalachian Mountain areas, both the Great Smoky Mountain and Blue Ridge Mountain chains. Each geographic region, because of its terrain, resource base, and history, has a culture very distinct from the other two. Economically, the Piedmont region is leading the state in most measures of growth. However, the Eastern North Carolina region, boosted by the rapid growth of resort communities in the coastal beach areas, has the fastest population growth in the state. Economic and population growth in the Western North Carolina region has not kept pace with that of the other two regions.[1]

Within these three regions, there are 85 rural counties.[2] The most populated rural counties are in the Eastern North Carolina region while the Piedmont region contains the state's largest urban centers. The North Carolina Office of State Planning estimates that, as of July 1997, 3.8 million residents, or 51.76 percent of North Carolina's total population, were living in these rural counties; while 3.6 million residents, or 48.24% of North Carolina's total population, were living in the remaining 15 urban counties. Based upon 1990 Census Data, these figures represent a 1 percent increase in urban county residents and a corresponding 1 percent decline in rural county residents, indicating a slight shift toward urbanization. More than 40 percent of the rural counties have lost residents to urban centers. North Carolina's rural areas also have lost farms, farm land and farm employment.

Notwithstanding the urbanization trend, 1990 census data show that rural employment grew by 19 percent or 209,000 workers during the 1980s. Forty-one percent of the individuals employed in the state resided in the rural counties. Currently, manufacturing jobs account for 27 percent of all rural employment.[3] However, portions of this job segment (e.g., labor-intensive, low-wage manufacturing jobs) will be particularly vulnerable to the impact of recent trade initiatives. Consequently, the number of manufacturing jobs in North Carolina may decrease significantly in the near future.

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[1] For economic and community development purposes, North Carolina is divided into 7 regions, each of which has a large non-profit regional development commission.

[2] North Carolina Rural Economic Development Center. Economic and Social Trends Affecting Rural North Carolina. November 1992. PP. 9-10.

[3] Ibid.

Community Needs

In North Carolina, one out of every four families lives in sub-standard housing. Also, it is estimated that an additional 200,000 housing units are needed to address existing housing stock shortages. According to the North Carolina Rural Economic Development Center, 5.1 percent of all occupied housing units in rural counties were classified as substandard in 1990. Multi-family rental units in the rural areas of the state typically fall into two categories, upscale, manicured resort communities or inadequate, poorly maintained properties with no amenities in unsafe neighborhoods. There is a significant need for affordable low- and moderate-income multi-family housing in these communities.

Affordable housing has emerged as a major concern for rural residents nationwide. In rural North Carolina (particularly the resort areas in the mountains or on the eastern coast) rental housing is difficult to find and, if available, very expensive. Demand enables landlords to rent the units for higher prices and on a month-to-month or week-to-week basis. The few year-round rentals that are available are difficult to obtain, since affluent newcomers to the community (professionals such as physicians, attorneys, business owners and wealthy retirees) can afford to pay higher rents. This need for adequate and affordable multi-family housing prompted the creation of the CICNC.

In North Carolina, as in many other states, some rural communities simply do not have local financial institutions with the ability and the desire to finance affordable multi-family housing projects. These projects are often difficult to underwrite and may require many layers of complex financing to make them work. Small, local financial institutions are often not able by themselves to safely originate the loans needed for these projects.

Best Practice Program or Product

In the 1990's, use of lending consortia has grown significantly, both in the number of participants and the purposes for which they are utilized. Statewide lending consortia provide a multitude of benefits to participating lenders and to the communities they serve throughout the state. Membership in a consortia enables a financial institution to participate in a meaningful way in the financing of community development projects regardless of the size of the project or the asset size of the institution. Risk is controlled not only because there are several participants in the loan, but because experienced multi-family underwriters sit on the loan committee that approves each loan. Importantly for rural communities with few financial institutions, participants in a community development loan, originated by a consortia, receive CRA lending credit regardless of where in the state the actual project is located. Consequently, financial institutions are motivated to participate in loans on projects even though they may be utside their own assessment area.

CICNC financing is available for affordable housing developments throughout North Carolina, including those rural communities that might not have any financial institution presence. Both non-profit and for-profit organizations may apply for CICNC financing. Approved loans are funded by CICNC members utilizing a voluntary loan pool participation process.

CICNC management believes that the only way to develop a similar program in small rural areas is to attract regional or statewide lender participation. CICNC Executive Vice President Roger Earnhardt has consulted on rural consortia models in Georgia and South Carolina and has indicated that a statewide consortium with a rural focus would be plausible because the tax credits and CRA benefits would attract rural as well as large non-rural investors, just as they do in North Carolina.

The Low-Income Housing Tax Credits Program, created as part of the Tax Reform Act of 1986, has played a critical role in the success of all the projects financed by CICNC to date. Developers have been able to use tax credits to generate equity equal to as much as 50 percent of the cost of a project. Financial institutions can help to provide that equity by purchasing the tax credit. The generation of this inexpensive equity is critical to the success of a multi-family project that is designed to house "cost-burdened" renters since the cost of the project nearly always exceeds the value that can be financed by the cash flow of the project. A household is considered "cost-burdened" when it pays 30 percent or more of its monthly income for housing-related costs. The limited cash flow, which is a problem in all affordable projects, is exacerbated in rural areas because the projects are generally smaller and, therefore, unable to reach economies of scale available in larger projects.

EXPERIENCES AND OBSTACLES

The lending process begins with the filing of a loan application with the CICNC. All applications are reviewed by CICNC staff prior to being presented to the CICNC Board of Directors for approval. To be considered, applications must meet the following loan criteria:

- At least 51 percent of the units in a project must provide housing for low-income families that are defined as households with 60 percent or less of the area median income.
- Rent, including utilities, may not exceed the applicable low-income rent ceiling based on 30 percent of the individual household's income.
- The qualified units must be occupied by low-income tenants as long as CICNC financing remains in place.

The approval process for CICNC loans typically takes 45 days from the date an application is submitted. Management indicates that it takes 30 days to assemble all the relevant information, including an appraisal, a market study, preliminary plan design and analysis of the projected operating performance and costs. Generally, within two weeks following the assembly of a complete loan package, it is submitted to the CICNC Board for approval.

Once a loan is approved by the CICNC**,** a description and analysis of the project is sent to all CICNC members, who are invited to subscribe to a portion of the total loan commitment. The minimum level of lender participation per loan is $10,000. Lenders geographically closest to the proposed project are given a right of first refusal. Typically, this allows local lenders to be a part of projects in their communities, thereby demonstrating their involvement and commitment to the local community in which they do business. An average CICNC loan will have from 20 to 30 participating lenders.

CICNC has financed several rural projects. One example is the Orchard View Apartments in Franklin, North Carolina. This 48-unit affordable housing complex, which was ready for occupancy in November 1, 1994, had total development costs of $2.93 million. Construction financing was provided by the North Carolina Finance Agency and First Citizens Bank of North Carolina. As is typical of affordable multi-family projects, the permanent costs were covered by a combination of equity, loans and grants from a variety of sources including CICNC, Low Income Housing Tax Credits, federal HOME funds, and the Federal Home Loan Bank of Atlanta ("FHLB-Atlanta").

For most multi-family housing projects, CICNC uses a conventional 30-year permanent financing product. The maximum loan-to-value ratio on this product is 75 percent, with a 1-percent fee for an 18-month commitment. The interest rate is fixed for the first 18 years on the 10-year Treasury Note plus a competitive margin. The rate on these loans adjusts in year 19 with a 4 percent lifetime cap and a floor rate of not less than 7.75 percent (the floor rate is subject to change). All loan servicing is done by CICNC using a software program that was designed for lending consortia. The income derived from its servicing activity has helped CICNC become self-sufficient. Lenders receive monthly checks from CICNC for their respective portions of the loan payments. Today this process is routine, although prior to the development of the software, servicing the portfolio was quite challenging.

Securing financing for multi-family housing projects is more difficult for developers in rural communities than in urban settings. Rural communities have fewer banks and a limited number of lenders who are capable of financing multi-family projects. Larger lenders are generally located in urban centers and may be unfamiliar or uncomfortable with lending in rural areas. Also, these lenders may not know the market and are not convinced that a rural project can be profitable. Multi-unit apartments must keep a sufficient number of units occupied to spread the cost of management and maintenance. This is a significant obstacle for multi-family developments in rural communities. CICNC has indicated that the typical rural community apartment project has only 20 to 40 units, often making it necessary for the developer to apply for grants, land donations, seed money or other concessions to cover its costs. In addition, developers can subsidize the low rents and make up for the lack of units over which to spread ase costs by utilizing tax credits.

One of the keys to CICNC's success has been the quality of the technical assistance it provides to the developers who bring the majority of the deals to the table. Having worked on many projects, the staff of CICNC is proficient at assisting the developers in many ways. Certainly, they are able to provide permanent financing, but in addition, they assist developers in grant writing, application filing, coordination of various aspects of the development and identification of other key partners to make a particular development a success. CICNC also has been instrumental in identifying additional sources of funding for developers in rural communities.

Pictured right are the 48 unit Orchard View Apartments, Franklin, NC, which was completed in 1994.

IMPLEMENTATION /CURRENT STATUS

CICNC, which began accepting applications in March of 1991, became a self-sustaining, profitable entity in 1994. Overall, the consortium has funded 68 multi-family projects totaling 3,246 units for $56 million in loans. Of that amount, 34 were rural projects accounting for $26 million in loans. In 1997, CICNC had an active year, closing on 12 developments that produced 525 units for $8.5 million in loans. In addition, CICNC has developed an important relationship with the FHLB-Atlanta.

PARTNERSHIPS

CICNC's housing development initiatives have been accomplished through partnerships with various government agencies in order to achieve the maximum benefit (leverage) from public and private funds designed for affordable housing. All CICNC projects were developed under the federal Low-Income Housing Tax Credits Program. In addition, CICNC developments have utilized CDBG funds, Historic Tax Credits, HUD HOME Funds, Federal Home Loan Bank Affordable Housing Program funds, state housing trust funds and local government housing bonds to subsidize the various projects.

ADDITIONAL INFORMATION CONTACTS

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Phone: (202) 482-2000
Fax: (202) 482-5270
Internet Homepage: http://www.census.gov

ADDITIONAL RESOURCES

North Carolina Office of State Planning
116 West Jones Street
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Phone: (919) 733-4131
Fax: (919) 715-3562
Internet Homepage:
http://www.ospl.state.nc.us/

NC Rural Economic Development Center
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Phone: (919) 250-4314
Fax: (919) 250-4325
Internet Homepage: http://ncredc.org